MEMO# 13214

March 12, 2001

# INSTITUTE PROPOSAL TO AMEND RULE 17G-1

[13214] March 12, 2001 TO: SEC RULES COMMITTEE No. 22-01 RULE 17g-1 TASK FORCE No. 1-01 RE: INSTITUTE PROPOSAL TO AMEND RULE 17g-1 At the February 28th SEC Rules Committee meeting, it was discussed and agreed that the Institute would urge the SEC's Division of Investment Management to act on the Institute's 1996 proposal to amend the fidelity bonding rule, Rule 17g-1 under the Investment Company Act. Attached is a copy of the proposal. The proposal, among other things, would update Rule 17g-1 to establish minimum coverage requirements for a fund complex, rather than for individual funds, and place a cap of $100 million on the amount of required fidelity bond coverage for a joint insured bond that names as insureds members of the same fund complex. In addition, the schedule of bonding requirements: (1) would smooth the breakpoints in the current schedule by incorporating a percentage-based breakpoint schedule; (2) would eliminate the marginal rate jump at the $1 billion point of the schedule (and, instead, maintain a declining rate of coverage as assets increase); and (3) would make clear the coverage required at specific dollar points on the schedule. The proposal would amend Rule 17g-1 in several other respects, including: (1) requiring fidelity bonds to be issued on an "each and every occurrence" basis; (2) permitting all entities within an investment company complex that are primarily engaged in the business of providing investment management or investment advice (including ancillary services such as research support services) to be named on the same joint bond; (3) eliminating the requirement that independent directors approve the portion of the premium to be paid by a fund prior to paying any premium under a joint bond, and, instead, requiring the independent directors to consider the premium to be paid along with several other factors in their annual review of the bond; and (4) simplifying and modernizing the rule's filing and notification procedures. We are aware that certain of the numerical data contained in the 1996 proposal will require updating. In addition, we would like your input as to whether any of the 1996 proposals should be modified and whether additional changes to Rule 17g-1 should be 2recommended in light of changes in the martketplace. Please contact me with your comments, by phone at (202) 371-5432, by fax at (202) 327-5827, or by e-mail at kireland@ici.org, by Thursday, April 5, 2001. Kathy D. Ireland Associate Counsel Attachment Attachment (in .pdf format)